

**Review of the Processing of Automated Receivables,
Reclamations and Credits (ARRC) System Referrals
Report No. 00-14, August 11, 2000**

This report presents the results of the Office of Inspector General's (OIG) review of the manual processing of Automated Receivables, Reclamations and Credits (ARRC) system referrals at the Railroad Retirement Board (RRB).

BACKGROUND

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the Railroad Retirement Act (RRA), which provides retirement and survivor benefits for eligible railroad employees, their spouses, widows, and other survivors. During fiscal year 1999, the RRB paid approximately \$8.25 billion in retirement and survivor benefits to about 748,000 annuitants.

Section 5 (c) of the Railroad Retirement Act, 45 U.S.C. 231, requires that an individual's entitlement to an annuity ends with the month preceding the month of death. In July 1995, the RRB's Bureau of Fiscal Operations (BFO) implemented the ARRC system. This system establishes receivables on the Program Accounts Receivable System (PARS) for benefit payments released after an annuitant's death, initiates reclamation through the Department of the Treasury (Treasury), and posts cash receipts and returned payment credits on PARS for payments returned by Treasury.

During fiscal year 1999, the ARRC system identified and established approximately \$31.6 million in receivables resulting from erroneous benefit payments issued after the death of annuitants. The system initiated about \$15.1 million in reclamations to Treasury.

Prior to the June 1995 implementation of the Payment, Rate, and Entitlement History system, the RRB did not have a central system for storing the data necessary to mechanically establish the overpayment and initiate a reclamation action. Therefore, ARRC does not have the capability to mechanically establish a receivable on PARS and initiate reclamation in cases involving annuitants who died prior to July 1995 or have no date of death recorded in the RRB's automated systems. Also ARRC does not have the capability to establish a receivable and initiate reclamation if there are discrepancies between the annuitant's records in other RRB automated systems.

Manual processing is also required in cases in which:

- no receivable was established on PARS,
- discrepancies still exist between the annuitant's records in other automated systems,
- receivables on PARS already have cash posted,
- cash was posted for the annuitant on PARS but was not applied to a receivable,
- one-payment-only (non-recurring) benefits are being reclaimed, or

- payments by check to a representative payee are being recovered.

ARRC produces daily referral listings of all cases that cannot be processed mechanically. Personnel in the Office of Programs and the BFO's Debt Recovery Division (DRD) manually process these cases. Referral processing involves ensuring that payments are stopped, determining which payments were issued and not returned after annuitants die, establishing the proper debts, and initiating recovery.

During fiscal year 1999, ARRC produced approximately 7,400 referrals for manual processing. The Office of Programs handled about 66 percent of these referrals. DRD processed the remaining 34 percent.

One RRB performance goal developed as a result of the Government Performance and Results Act is to safeguard the rail community's trust funds through prudent stewardship. To accomplish this commitment, the agency plans to aggressively collect debts owed the trust funds. This audit addresses that objective.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to determine if the Office of Programs and DRD are handling ARRC referrals properly. To accomplish the objective, OIG auditors:

- reviewed statistics related to ARRC processing;
- reviewed relevant laws, regulations, legal opinions, policies and procedures;
- reviewed Management Control Review and Risk Assessment reports related to ARRC processing;
- reviewed prior related audits;
- reviewed randomly selected samples of ARRC referrals; and
- interviewed RRB employees.

This review examined ARRC referrals that were generated in fiscal years 1999 and 2000. We selected two samples from the ARRC referral listings generated from October 1998 through July 1999 – 67 Office of Programs referrals and 32 DRD referrals. In addition, the auditors used database extraction techniques to obtain four additional DRD cases involving deceased annuitants who had representative payees and 15 additional DRD cases involving non-recurring payments issued after the annuitant's death. We reviewed the additional samples because: (a) DRD does not maintain the ARRC referral listings for representative payee cases and (b) we believed that the non-recurring overpayment cases would be more prone to manual handling errors. These cases included fiscal year 1999 terminations and payments issued from October 1, 1998 through January 18, 2000.

The audit staff conducted the review in accordance with generally accepted government auditing standards appropriate to the objective described above. Auditors performed fieldwork from August 1999 through June 2000 at the RRB headquarters office in Chicago, Illinois.

RESULTS OF REVIEW

Our review showed that the Office of Programs should improve the effectiveness and efficiency over processing of ARRC referrals by ensuring that requests for annuitant death information are handled in a timely manner. The review determined that the Debt Recovery Division should improve the effectiveness and efficiency of handling ARRC referrals by processing cases involving representative payees of deceased annuitants more timely. In addition, DRD should recover all non-recurring benefit payments issued in the month of an annuitant's death for which the annuitant is not entitled.

The details of our review are discussed below.

Office of Programs' Processing Timeliness

The Office of Programs is not following up on requests for annuitant death information in a timely manner. The largest category of ARRC referrals includes cases in which benefits were terminated without a date of death recorded in the RRB's systems. ARRC refers these cases to the Office of Programs to determine the date of death and the correct termination date. The termination date is the first month that benefits are not payable because of death. However, some cases require no further action because the proper termination date was entered after the referral and no payments are outstanding.

When an annuitant's date of death is not available, the Office of Programs sends a form letter to family or friends asking for that information. Office of Programs staff advised that they request field office personnel to obtain the information if no response is received within 45 days. They allow the field office an additional ten days to reply before making a follow-up request.

The Office of Programs has not formalized these time frames for requesting death information and is not following them. Of the 67 Office of Programs referral cases that we reviewed, thirty-five were referred because ARRC was unable to determine the correct benefit termination effective dates. Seventeen cases required program personnel to enter benefit termination effective dates in the automated benefit payment systems. Office of Programs personnel entered the required dates for fourteen cases, requiring an average of 84 days from when those cases were referred. The time to process these cases ranged from 34 days to 235 days. As of March 2000, the Office of Programs had not entered the required benefit termination dates for three of the 17 cases.

In the 1997 Management Control Review for Accounts Receivable under the Railroad Retirement Act, BFO reported that the Office of Programs had not been actively processing referral cases using the daily ARRC referral listings. The Office of Programs informed BFO that it would implement procedures for investigating instances when the operating units receive no referral listings. However, the procedures implemented by the Office of Programs do not ensure that all cases are fully processed. Office of Programs staff make notations on the ARRC referral listings to document their request for annuitant

death information, but the notations do not always show the date of initial action or indicate whether follow-up action was taken.

Without a date of death, the ARRC system cannot determine the number of payments released after an annuitant's death, establish a debt, and initiate reclamation. In addition, RRB personnel are not able to correctly determine the number of benefit payments that must be recovered and initiate recovery action. As a result, the RRB may not recover all benefits paid after death.

Based on our sample review, we estimate that the Office of Programs did not enter required benefit termination dates for more than 260 ARRC referrals during fiscal year 1999.

Recommendation:

The Office of Programs should formalize and implement procedures and time frames for following up on requests for annuitant date of death information (Recommendation 1).

Management's Response:

The Office of Programs has agreed with our recommendation and will complete corrective action by August 15, 2000.

Debt Recovery Division's Processing Timeliness for Representative Payee Referrals

DRD personnel do not request repayment of benefit checks issued to representative payees of deceased annuitants in a timely manner. The ARRC system refers debts for representative payee cases to DRD for manual processing thirty days after establishing the debt on PARS. DRD personnel post any returned benefit payments that have not been posted by the ARRC system. DRD then sends letters to the representative payees requesting that the outstanding benefit payments be returned.

DRD processes ARRC representative payee referrals from listings that are generated monthly by PARS. DRD management advised that their informal goal is to send repayment notices to representative payees 30 to 60 days from when DRD personnel receive the PARS listing.

DRD has not followed its informal time frame. In our sample of four ARRC referral cases in which benefit checks were issued to the representative payee after the annuitant died, DRD personnel sent repayment notices from 82 to 111 days after receiving the PARS listing. For the four cases, DRD took an average of 106 days from when ARRC referred the cases to send repayment notices to the representative payees.

As a result, there is a delay in recovery of debts and a possibility that DRD may not

recover some overpayments. For example, at the close of our fieldwork, DRD still had not recovered three of the four overpayments in our sample even though ARRC referred the three cases for manual processing in July 1999. DRD recovered the fourth debt 212 days after the ARRC referral date. Based on our sample, we estimate that in FY 1999, DRD did not send timely repayment notices to over 300 representative payees of deceased annuitants.

Recommendation:

The Bureau of Fiscal Operations should formalize and enforce a timeliness standard for processing ARRC representative payee referrals (Recommendation 2).

Management's Response:

The Bureau of Fiscal Operations has agreed with our recommendation and will complete corrective action by September 30, 2000.

Debt Recovery Division's Processing Accuracy

DRD has not been recovering ARRC referrals involving non-recurring benefit payments issued in the month of death for which the annuitant is not entitled. When non-recurring benefit payments are issued in the month of an annuitant's death, DRD's written procedures require staff to remove these payments from the total amount of the debt.

Non-recurring benefit payments are separate payments for initial awards, adjustments or reinstatements of an award. These payments are issued throughout the month and sometimes include the benefit payment for that same month. The Railroad Retirement Act states that an individual's entitlement for an annuity ends with the month preceding the month of death. If an annuitant has received a non-recurring benefit payment and dies in that same month, the annuitant is not entitled to the portion of the benefit paid for that month.

Our review of 24 non-recurring benefit payments cases handled by DRD included three cases that included erroneous benefits paid for the month in which the annuitants died. When processing the ARRC referrals, DRD personnel did not recover erroneous payments totaling approximately \$1200 for the three cases. For one of these cases, the erroneous check of approximately \$550 was never cashed, resulting in no loss of funds to the agency.

As a result of DRD's policy of ignoring non-recurring benefits paid in the month of an annuitant's death, the RRB is not able to recover these erroneous benefits. DRD management explained that they ignored these overpayments because limitations in the Department of Treasury's systems prevented reclamation of benefits paid during the month of an annuitant's death. DRD also did not attempt recovery because DRD was unable to identify the debtors.

DRD management also advised that RRB staff had previously requested Treasury to change its procedures to allow reclamation for these cases. In June 2000, Treasury informed the RRB that it has corrected the processing limitation that prevented it from reclaiming non-recurring benefits issued in the month of death.

Recommendations:

The Bureau of Fiscal Operations should:

- review prior ARRC referrals that included non-recurring payments issued in the month of the annuitant's death to identify erroneous payments for recovery (Recommendation 3),
- submit the payments to the Department of Treasury for reclamation (Recommendation 4), and
- update written procedures to include non-recurring benefit payments issued during the month of an annuitant's death as part of the total debt amount (Recommendation 5).

Management's Response:

The Bureau of Fiscal Operations has agreed with our recommendations. Corrective action on recommendations 3 and 4 will be completed by August 31, 2000. Corrective action for recommendation 5 was completed on June 22, 2000.